

ALBION HOUSING COMMISSION
ALBION, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>Albion Housing Commission</i>	County
Audit Date <i>9/30/04</i>	Opinion Date <i>4/7/05</i>	Date Accountant Report Submitted to State: <i>5/19/05</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <i>Samy B. Gaudette, CPA, PC</i>			
Street Address <i>1107 E. 8th Street</i>	City <i>Traverse City</i>	State <i>MI</i>	ZIP <i>49686</i>
Accountant Signature <i>Samy B. Gaudette, CPA, PC</i>			

ALBION HOUSING COMMISSION
TABLE OF CONTENTS
September 30, 2004

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1-2
<u>MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)</u>	3-6
<u>FINANCIAL STATEMENTS</u>	
Combined Statement of Net Assets	7-8
Combined Statement of Activities	9
Combined Statement of Cash Flows	10-11
Notes to Financial Statements	12-22
<u>SUPPLEMENTAL INFORMATION</u>	
Combining Statement of Net Assets	23-24
Combining Statement of Activities	25
Combining Statement of Cash Flows	26-27
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	28
Financial Data Schedule	29-32
<u>REPORT ON COMPLIANCE AND ON INTERNAL CONTROL</u>	33-36
Schedule of Findings and Questioned Costs	37-38
Summary Schedule of Prior Audit Findings	39

INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Albion Housing Commission
Albion, Michigan

We have audited the accompanying statements of net assets of the Albion Housing Commission, Michigan (a component unit of the City of Albion) as of September 30, 2004, and the related statements of revenues, expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Albion Housing Commission, Michigan, as of September 30, 2004, and the results of its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2005 on our consideration of Albion Housing Commission, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Albion Housing Commission
Independent Auditor's Report
Page Two

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information the Government Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion thereon.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Financial Data Schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying Schedule of Expenditures of Federal Awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of September 30, 2004.

Gary E. Vanket, CPA, PC

April 7, 2005

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2004
=====

The Albion Housing Commission, created in 1950, by the City of Albion provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2004. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Albion Housing Commission consists of two programs. The first is owned housing, consisting of 218 units of public housing and the second is the capital funding program. Albion Housing Commission had total revenues of \$914,748 that includes \$355,498 in rental payments and \$530,352 in federal assistance. Total operating expenses were \$1,003,286, that includes \$373,801 in administrative expenses, \$311,697 in ordinary maintenance expenses, and \$128,238 in depreciation expense. Total revenues were less than the prior year by \$526,762, due to the Capital Fund program closing out several years in the 2003 fiscal year. Operating expenses increased by \$104,724 over the prior year due to increases in the depreciation expense of \$55,049 and a wage and benefits increases of \$35,084.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent year by \$3,103,037. The Housing Commission's total net assets decreased by \$98,505 from the prior year. The decrease is attributable in part to depreciation expense increasing by \$55,049 over the prior year. The current assets decrease of \$460,447 and Current liabilities decrease of \$172,133, result in a net change of \$288,314. This reduction can mostly be attributed to the \$320,384 spent on capital acquisitions this year.

Total assets of the Housing Commission were \$3,261,541 including \$1,068,735 of current assets and \$2,192,806 of net property, plant, and equipment assets. The Housing Commission had current liabilities of \$76,843. Assets decreased by \$268,300 from the prior year due in part to the depreciation expense of \$128,238, wage and benefit increases of \$35,084, maintenance contract costs increases of \$23,044, utilities increasing by \$8,137, and insurance liability costs increasing by \$12,133.

The financial condition of the Housing Commission has not changed materially from the prior year, although the Net Assets did decrease by \$98,505 from the prior year. The Housing Commission remains very strong with a balance of \$1,068,735 in current assets.

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2004

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Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2004

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Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Current assets	\$1,068,735	\$1,529,182	\$ (460,447)
Property and equipment	<u>2,192,806</u>	<u>2,000,659</u>	<u>192,147</u>
Total assets	<u>\$3,261,541</u>	<u>\$3,529,841</u>	<u>\$ (268,300)</u>
Current liabilities	\$ 76,843	\$ 248,976	\$ (172,133)
Noncurrent liabilities	<u>81,661</u>	<u>79,323</u>	<u>2,338</u>
Total liabilities	<u>158,504</u>	<u>328,299</u>	<u>(169,795)</u>
Net assets:			
Invested in capital assets	2,192,806	2,162,744	30,062
Unrestricted net assets	<u>910,231</u>	<u>1,038,798</u>	<u>(128,567)</u>
Total net assets	<u>3,103,037</u>	<u>3,201,542</u>	<u>(98,505)</u>
Total liabilities and net assets	<u>\$3,261,541</u>	<u>\$3,529,841</u>	<u>\$ (268,300)</u>

ALBION HOUSING COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
(CONTINUED)

September 30, 2004

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Financial Analysis of the Housing Commission (continued)

The following table summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended September 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 350,590	\$ 359,145	\$(8,555)
Nondwelling rent	<u>4,908</u>	<u>5,190</u>	<u>(282)</u>
Total operating revenues	<u>355,498</u>	<u>364,335</u>	<u>(8,837)</u>
Operating expenses:			
Administration	373,801	374,645	(844)
Tenant services	23,648	11,862	11,786
Utilities	97,885	89,748	8,137
Ordinary maintenance and operation	311,697	256,156	55,541
General expenses	99,052	83,425	15,627
Extraordinary maintenance		9,537	(9,537)
Casualty losses	(31,035)		(31,035)
Depreciation	<u>128,238</u>	<u>73,189</u>	<u>55,049</u>
Total operating expenses	<u>1,003,286</u>	<u>898,562</u>	<u>104,724</u>
Operating income(loss)	<u>(647,788)</u>	<u>(534,227)</u>	<u>(113,561)</u>
Non-operating revenue (expense):			
Interest income	14,598	21,468	(6,870)
Operating grants	397,531	600,617	(203,086)
Capital grants	132,821	385,458	(252,637)
Other income	<u>14,300</u>	<u>69,632</u>	<u>(55,332)</u>
Total nonoperating revenue (expense)	<u>559,250</u>	<u>1,077,175</u>	<u>(517,925)</u>
Net income(loss)	(88,538)	542,948	(631,486)
Prior period adjustments	<u>(9,967)</u>	<u>41,142</u>	<u>(51,109)</u>
Change in Net Assets	<u><u>\$ (98,505)</u></u>	<u><u>\$ 584,090</u></u>	<u><u>\$ (682,595)</u></u>

FINANCIAL STATEMENTS

ALBION HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS
September 30, 2004
=====

ASSETS

Current Assets:

Cash	\$ 673,200
Accounts receivable-dwelling rents	5,471
Investments-unrestricted	366,483
Prepaid expenses	<u>23,581</u>

Total Current Assets	<u>1,068,735</u>
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Property, Plant, and Equipment:

Land	19,144
Buildings	10,732,770
Equipment	326,956
Building improvements	<u>402,325</u>
	11,481,195
Less: accumulated depreciation	<u>(9,288,389)</u>

Net Property, Plant, and Equipment	<u>2,192,806</u>
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Total Assets	<u><u>\$ 3,261,541</u></u>
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See notes to financial statements

ALBION HOUSING COMMISSION
COMBINED STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2004
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LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 25,761
Tenant security deposit liability	25,248
Accrued expenses	9,073
Deferred revenues	<u>16,761</u>
Total Current Liabilities	76,843
Noncurrent Liabilities:	
Accrued compensated absences	<u>81,661</u>
Total Liabilities	<u>158,504</u>
Net Assets:	
Invested in capital assets	2,192,806
Unrestricted net assets	<u>910,231</u>
Total Net Assets	<u>3,103,037</u>
Total Liabilities and Net Assets	<u>\$ 3,261,541</u>

See notes to financial statements

ALBION HOUSING COMMISSION
COMBINED STATEMENT OF ACTIVITIES
 Year Ended September 30, 2004
 =====

OPERATING REVENUES:	
Dwelling rent	\$ 350,590
Non-dwelling rent	<u>4,908</u>
Total operating revenues	<u>355,498</u>
OPERATING EXPENSES:	
Administration	373,801
Tenant services	23,648
Utilities	97,885
Ordinary maintenance and operation	311,697
General expenses	99,052
Casualty losses	(31,035)
Depreciation	<u>128,238</u>
Total operating expenses	<u>1,003,286</u>
Operating income (loss)	<u>(647,788)</u>
NONOPERATING REVENUES:	
Investment interest income	14,598
Other income	14,300
Operating grants	397,531
Capital grants	<u>132,821</u>
Total nonoperating revenues	<u>559,250</u>
Net income (loss)	(88,538)
Prior period adjustments	<u>(9,967)</u>
Change in net assets	(98,505)
Net assets, beginning	<u>3,201,542</u>
Net assets, ending	<u>\$ 3,103,037</u>

See notes to financial statements

ALBION HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS
 Year Ended September 30, 2004
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Cash flows from operating activities:

Cash received from dwelling and nondwelling rents	\$ 352,177
Cash payments to other suppliers of goods and services	(395,983)
Cash payments to employees for services	(480,952)
Cash payments for in lieu of taxes	(27,665)
Net cash (used) by operating activities	(552,423)

Cash flows from noncapital financing activities:

Tenant security deposits	387
Operating grants	544,194
Other revenue	14,300
Net cash provided by noncapital financing activities	558,881

Cash flows from capital and related financing activities:

Capital grants	288,901
Payments for capital acquisitions	(320,384)
Net cash (used) by capital and related financing activities	(31,483)

Cash flows from investing activities:

Certificates of deposits matured	24,817
Receipts of interest and dividends	14,598
Net cash provided by investing activities	39,415

Net increase(decrease) in cash	14,390
Cash, beginning	658,810
Cash, ending	<u>\$ 673,200</u>

ALBION HOUSING COMMISSION
COMBINED STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2004
=====

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 673,200
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 673,200</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$(647,788)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	128,238
Adjustments	(9,967)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(3,321)
Prepaid expenses	(5,483)
Increase (decrease) in liabilities:	
Accounts payable	(6,509)
Accrued wages/payroll taxes	(3,742)
Accrued compensated absences	2,597
Accrued payments in lieu of taxes	(1,904)
Deferred revenues	<u>(4,544)</u>
Net cash (used) by operating activities	<u>\$(552,423)</u>

See notes to financial statements

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Albion Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Albion Housing Commission is a component unit of the City of Albion, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Albion on July 10, 1950, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Albion Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3043, the Housing Commission constructed, maintains and operates 218 units of subsidized housing in the City of Albion, Michigan.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Housing Commission. For the most part, the effect of the interfund activity has been removed from these statements. The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support.

The Housing Commission is considered a major individual Enterprise Fund.

Fund Accounting

The accounts of the Housing Commission are organized on the basis

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting (continued)

of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the statement of net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net assets components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Albion Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds and to the proprietary funds of its component units.

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	15 - 25 years
Furniture, equipment and machinery	7 - 10 years
Building improvements	15 - 25 years

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested in capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave not used by employees may be accumulated up to two weeks upon approval of the Executive Director. An employee who is permanently separated by reason of resignation, retirement, death or termination shall be paid, in a lump sum at his/her current rate of pay for all unused vacation leave.

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Vacation and Sick Leave (continued)

- * Sick leave shall accumulate at the rate of one (1) day of each thirty (30) calendar days of service. A regular employee leaving the service of the Housing Commission, by reason of resignation, retirement, death or termination, will be paid in a lump sum 100% of all accumulated sick leave at the employee's current rate of pay. Each regular full time employee shall be given the option of cashing in accumulative sick leave at the end of every fiscal year which exceeds 60 days. Employees are only allowed to cash in a maximum of fifteen (15) days per fiscal year.
- * Personal leave is earned at a rate of three days per year. Unused personal leave cannot be accumulated.

The amount of accumulated benefits at September 30, 2004, was \$90,734, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: CASH AND INVESTMENTS

The Housing Commission maintains cash and investment accounts in the Low Rent Program.

HUD authorizes the Housing Commission to invest in certificates of deposit, money-market funds, United States government securities, and repurchase agreements fully collateralized by United States government securities.

The Housing Commission's investments are categorized below to give an indication of the level of risk assumed by the entity at year end.

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
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NOTE 2: CASH AND INVESTMENTS (continued)

Category 1: Includes deposits that are insured, registered, or for which the collateral securities are held by the Housing Commission or its agent in the Housing Commission's name. This includes FDIC or equivalent insurance coverage.

Category 2: Includes deposits for which the collateral securities are held by the dealer's trust department or agent in the Housing Commission's name.

Category 3: Includes all uninsured and uncollateralized deposits.

For all deposits shown below, the market value at the balance sheet date is substantially the same as the carrying value. The difference between the bank balance and carrying value is due to outstanding checks and/or deposits in transit. At various times during the year, the Housing Commission's deposits may have been higher than the September 30, 2004, balances detailed below. This means that the Housing Commission's risk and exposure could have been higher at these times. The Housing Commission had no significant type of deposits during the year not included below.

<u>Depository Balances by Category</u>					
<u>Depository</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>Total</u>	<u>Carrying Value</u>
Chemical Bank	\$175,217	\$	\$	\$ 175,217	\$ 166,598
Standard Federal	7,728			7,728	7,728
Homestead Savings	200,000		306,302	506,302	506,302
American Federal Credit Union	24,706			24,706	24,706
Federal Mortgage Securities	30,380			30,380	30,380
Treasury Bills	<u>303,969</u>			<u>303,969</u>	<u>303,969</u>
Total Deposits	<u>\$742,000</u>	<u>\$</u>	<u>\$306,302</u>	<u>\$1,048,302</u>	<u>\$1,039,683</u>

Reconciliation to Cash on Balance Sheet

Cash	\$ 673,200
Unrestricted investments	366,483
Restricted cash	-
Total	<u>\$1,039,683</u>

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2004, the receivables were \$5,471 with \$-0- estimated as uncollectible. Bad debt expense was \$5,873.

Accounts Receivables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. There weren't any amounts due from HUD as of September 30, 2004.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs". There were no interfund receivables or payables as of September 30, 2004.

There were no Individual fund operating transfers during the fiscal year.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2004 was as follows:

	<u>Balance</u> <u>09/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/04</u>
Low Rent Program				
Land	\$ 19,144	\$	\$	\$ 19,144
Buildings	9,840,687	892,083		10,732,770
Furniture, equip. & machinery - dwellings	71,151	12,435		83,586
Furniture, equip. & machinery - administration	<u>240,131</u>	<u>3,239</u>		<u>243,370</u>
	10,171,113	<u>\$ 907,757</u>	<u>\$</u>	11,078,870
Less accumulated depreciation	(9,160,152)	<u>\$ (128,237)</u>	<u>\$</u>	(9,288,389)
Total	<u>\$1,010,961</u>			<u>\$1,790,481</u>

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 4: CAPITAL ASSETS (Continued)

Capital Fund Program

	<u>Balance</u> <u>09/30/03</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/04</u>
Building improvements	\$ 989,698	\$ 132,821	\$ 720,194	\$ 402,325
Combined Totals	<u>\$2,000,659</u>			<u>\$2,192,806</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended September 30, 2004, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	
Investment in fixed assets, net of depreciation paid for from operations	\$ 2,162,744
net of depreciation, not included in contributed capital	<u>30,062</u>
Balance, ending	<u>\$ 2,192,806</u>

NOTE 6: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes two separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2004, was as follows:

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 6: SEGMENT INFORMATION (Continued)

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets		
Dwelling and nondwelling rents	\$ 355,498	\$
Depreciation	(128,238)	
Other operating expenses	(875,048)	
Operating (loss)	(647,788)	
Nonoperating revenues:		
Investment earnings	14,598	
Operating grants	397,531	
Capital grants		132,821
Other income	14,300	
Net income (loss)	(221,359)	132,821
Prior period adjustments and equity transfers	710,227	(720,194)
Change in net assets	488,868	(587,373)
Beginning net assets	2,211,844	989,698
Ending net assets	<u>\$2,700,712</u>	<u>\$ 402,325</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:		
Operating activities	\$(552,423)	\$
Noncapital financing activities	714,961	(156,080)
Capital and related financing activities	(187,563)	156,080
Investing activities	39,415	
Net increase (decrease)	14,390	
Beginning cash	658,811	
Ending cash	<u>\$ 673,200</u>	<u>\$</u>

NOTE 7: OTHER INFORMATION

A. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

B. Pension Plan

The Housing Commission participates with the City of Albion where each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after ten (10) years. At December 31, 2003, the date of the last completed actuarial evaluation, the Housing Commission the City of Albion's (Municipality) termination liability for retirement benefits for nonunion members was \$3,522,266. The present value of accrued benefits available to meet this obligation were \$3,527,193. The Valuation of the Assets for the Municipality as of December 31, 2003 was \$5,622,378, leaving an overfunded balance of \$2,095,185. There are 22 active nonunion members, 10 vested former nonunion members and 43 nonunion retirees and beneficiaries. The Municipality had nonunion employee payroll of \$729,729, but did not have to make an employer contribution since there was an overfunded balance.

C. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2004, the Housing Commission implemented GASB Statement Number 34 - Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Commitments

A former is employee is on paid administrative leave.

ALBION HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
September 30, 2004
=====

NOTE 7: OTHER INFORMATION (Continued)

F. Prior Period Adjustments, Equity Transfers and
Correction of Errors

Low Rent Program

Adjustment of year end accruals	\$ (9,967)
Equity transfer of CFP 2000 and 2001	<u>720,194</u>
	<u>\$ 710,227</u>

Capital Fund Program

Equity transfer to Low Rent Program	<u>\$ (720,194)</u>
-------------------------------------	---------------------

SUPPLEMENTARY INFORMATION

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2004
 =====

	C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 673,200	\$
Accounts receivable-dwelling rents	5,471	
Investments-unrestricted	366,483	
Prepaid expenses	<u>23,581</u>	
Total current assets	<u>1,068,735</u>	
Property, plant, and equipment:		
Land	19,144	
Buildings	10,732,770	
Equipment	326,956	
Building improvements	<u>11,078,870</u>	<u>402,325</u>
Less accumulated depreciation	<u>(9,288,389)</u>	<u>402,325</u>
Net property, plant and equipment	<u>1,790,481</u>	<u>402,325</u>
Total Assets	<u>\$ 2,859,216</u>	<u>\$ 402,325</u>

Totals

\$ 673,200
5,471
366,483
23,581

1,068,735

19,144
10,732,770
326,956
402,325
11,481,195
(9,288,389)

2,192,806

\$ 3,261,541

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
 September 30, 2004
 =====

C-3043	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:		
Accounts payable	\$ 25,761	\$
Tenant security deposit liability	25,248	
Accrued expenses	9,073	
Deferred revenues	<u>16,761</u>	
Total current liabilities	76,843	
Noncurrent liabilities:		
Accrued compensated absences	<u>81,661</u>	
Total liabilities	<u>158,504</u>	
Net assets:		
Invested in capital assets	1,790,481	402,325
Unrestricted net assets	<u>910,231</u>	
Total net assets	<u>2,700,712</u>	<u>402,325</u>
Total Liabilities and Net Assets	<u>\$2,859,216</u>	<u>\$ 402,325</u>

Totals

\$ 25,761
25,248
9,073
16,761

76,843

81,661

158,504

2,192,806
910,231

3,103,037

\$ 3,261,541

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2004
 =====

	C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 350,590	\$
Nondwelling rent	<u>4,908</u>	
Total operating revenues	<u>355,498</u>	
OPERATING EXPENSES:		
Administration	373,801	
Tenant services	23,648	
Utilities	97,885	
Ordinary maintenance and operation	311,697	
General expenses	99,052	
Casualty losses	(31,035)	
Depreciation	<u>128,238</u>	
Total operating expenses	<u>1,003,286</u>	
Operating income (loss)	<u>(647,788)</u>	
NONOPERATING REVENUES:		
Investment interest income	14,598	
Other income	14,300	
Operating grants	397,531	
Capital grants		<u>132,821</u>
Total nonoperating revenues	<u>426,429</u>	<u>132,821</u>
Net income (loss)	(221,359)	132,821
Prior period adjustments and equity transfers	<u>710,227</u>	<u>(720,194)</u>
Change in net assets	488,868	(587,373)
Net assets, beginning	<u>2,211,844</u>	<u>989,698</u>
Net assets, ending	<u>\$2,700,712</u>	<u>\$402,325</u>

Totals

\$ 350,590
4,908

355,498

373,801
23,648
97,885
311,697
99,052
(31,035)
128,238

1,003,286

(647,788)

14,598
14,300
397,531
132,821

559,250

(88,538)

(9,967)

(98,505)

3,201,542

\$ 3,103,037

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2004
 =====

	C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
Cash flows from operating activities:		
Cash received from dwelling and nondwelling rents	\$ 352,177	\$
Cash payments to other suppliers of goods and services	(395,983)	
Cash payments to employees for services	(480,952)	
Cash payments for in lieu of taxes	<u>(27,665)</u>	
Net cash (used) by operating activities	<u>(552,423)</u>	
Cash flows from noncapital financing activities:		
Interfund payables/receivables	156,080	(156,080)
Tenant security deposits	387	
Operating grants	544,194	
Other revenue	<u>14,300</u>	
Net cash provided by noncapital financing activities	<u>714,961</u>	<u>(156,080)</u>
Cash flows from capital and related financing activities:		
Capital grants		288,901
Payments for capital acquisitions	<u>(187,563)</u>	<u>(132,821)</u>
Net cash provided (used) by capital and related financing activities	<u>(187,563)</u>	<u>156,080</u>
Cash flows from investing activities:		
Certificates of deposits matured	24,817	
Receipts of interest and dividends	<u>14,598</u>	
Net cash provided by investing activities	<u>39,415</u>	
Net increase(decrease) in cash	14,390	
Cash, beginning	<u>658,810</u>	
Cash, ending	<u>\$ 673,200</u>	<u>\$</u>

Totals

\$ 352,177

(395,983)

(480,952)

(27,665)

(552,423)

387

544,194

14,300

558,881

288,901

(320,384)

(31,483)

24,817

14,598

39,415

14,390

658,810

\$ 673,200

ALBION HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2004
 =====

C-3043	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

Reconciliation of cash and cash equivalents per statement of cash flows to the balance sheet:

Cash	\$ 673,200	\$
Restricted cash		
	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 673,200</u>	<u>\$</u>

Schedule reconciling operating income to net cash flow from operating activities:

Operating income(loss)	\$ (647,788)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	128,238	
Adjustments	(9,967)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(3,321)	
Prepaid expenses	(5,483)	
Increase (decrease) in liabilities:		
Accounts payable	(6,509)	
Accrued wages/payroll taxes	(3,742)	
Accrued compensated absences	2,597	
Accrued payments in lieu of taxes	(1,904)	
Deferred revenues	(4,544)	
	<u> </u>	<u> </u>
Net cash (used) by operating activities	<u>\$ (552,423)</u>	<u>\$</u>

Totals

\$ 673,200

\$ 673,200

\$ (647,788)

(128,238
9,967)

(3,321)
(5,483)

(6,509)
(3,742)
2,597

(1,904)
(4,544)

\$ (552,423)

ALBION HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2004
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2004	Low Rent Public Housing	14.850	\$ 397,531
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2004	Capital Fund Program	14.872	<u>132,821</u>
	Total		<u>\$ 530,352</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

accrual The schedule of federal awards has been prepared on the
 basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 673,200	\$ _____
100	Total cash	<u>673,200</u>	_____
	Receivables:		
126	A/R-tenants-dwelling rents	<u>5,471</u>	_____
120	Total receivables, net of allowance for doubtful accounts	<u>5,471</u>	_____
	Current Investments:		
131	Investments-unrestricted	<u>366,483</u>	_____
	Other Current Assets:		
142	Prepaid expenses and other assets	<u>23,581</u>	_____
150	Total current assets	<u>1,068,735</u>	_____
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	19,144	
162	Buildings	10,732,770	
163	Furn, equip & mach-dwellings	83,586	
164	Furn, equip & mach-admin.	243,370	
165	Building improvements		402,325
166	Accumulated depreciation	<u>(9,288,389)</u>	_____
160	Total fixed assets, net of accumulated depreciation	<u>1,790,481</u>	<u>402,325</u>
180	Total noncurrent assets	<u>1,790,481</u>	<u>402,325</u>
190	Total Assets	<u>\$2,859,216</u>	<u>\$ 402,325</u>

Totals

\$ 673,200

673,200

5,471

5,471

366,483

23,581

1,068,735

19,144
10,732,770
83,586
243,370
402,325
(9,288,389)

2,192,806

2,192,806

\$ 3,261,541

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES AND EQUITY/NET ASSETS			
	Liabilities:		
	Current Liabilities:		
322	Accrued compensated absences	\$ 9,073	\$
333	Accounts payable-other		
	government	25,761	
341	Tenant security deposits	25,248	
342	Deferred revenues	<u>16,761</u>	
310	Total current liabilities	76,843	
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>81,661</u>	
300	Total liabilities	<u>158,504</u>	
	Equity:		
508.1	Invested in capital assets	<u>1,790,481</u>	<u>402,325</u>
508	Total equity	1,790,481	402,325
	Net Assets:		
512.1	Unrestricted net assets	<u>910,231</u>	
513	Total net assets	<u>2,700,712</u>	<u>402,325</u>
600	Total Liabilities and Equity/Net Assets	<u>\$2,859,216</u>	<u>\$ 402,325</u>

Totals

\$ 9,073

25,761

25,248

16,761

76,843

81,661

158,504

2,192,806

2,192,806

910,231

3,103,037

\$ 3,261,541

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 350,590	\$
704	Tenant revenue-other	<u>4,908</u>	
705	Total tenant revenue	355,498	
706	HUD PHA grants	397,531	
706.1	Capital grants		132,821
711	Investment income-unrestricted	14,598	
715	Other revenue	<u>14,300</u>	
700	Total revenue	<u>781,927</u>	<u>132,821</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	198,215	
912	Auditing fees	2,700	
914	Compensated absences	2,597	
915	Employee benefit contributions-adm.	80,789	
916	Other operating-administrative	89,500	
	Tenant Services:		
923	Employee benefit contributions	12,118	
924	Tenant services-other	11,530	
	Utilities:		
931	Water	33,635	
932	Electricity	26,392	
933	Gas	37,858	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	132,229	
942	Ordinary maint & oper-mat'ls & other	36,524	
943	Ordinary maint & oper-contract costs	87,909	
945	Employee benefit contributions- ordinary maintenance	53,859	
953	Protective services-other	1,176	
	General expenses:		
961	Insurance premiums	64,065	
962	Other general expenses	73	
963	Payments in lieu of taxes	25,761	
964	Bad debt-tenant rents	5,873	
968	Severance expense	<u>3,280</u>	
969	Total operating expenses	<u>906,083</u>	

Totals

\$ 350,590
4,908
355,498
397,531
132,821
14,598
14,300
914,748

198,215
2,700
2,597
80,789
89,500

12,118
11,530

33,635
26,392
37,858

132,229
36,524
87,909

53,859
1,176

64,065
73
25,761
5,873
3,280

906,083

ALBION HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2004
 =====

FDS Line Item No.		C-3043 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(124,156)	<u>132,821</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses-noncapitalized	(31,035)	
974	Depreciation expense	<u>128,238</u>	
	Total other expenses	<u>97,203</u>	
900	Total expenses	<u>1,003,286</u>	
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(221,359)	132,821
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)		
1000	Excess (deficiency) of operating revenue over(under) expenses	(221,359)	132,821
1104	Prior period adjustments, equity transfers and correction of errors	710,227	(720,194)
1103	Beginning Net Assets	<u>2,211,844</u>	<u>989,698</u>
	Ending Net Assets	<u>\$ 2,700,712</u>	<u>\$402,325</u>

Totals

8,665

(31,035)

128,238

97,203

1,003,286

(88,538)

(88,538)

(9,967)

3,201,542

\$ 3,103,037

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

We have audited the financial statements of the Albion Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2004, and have issued our report thereon dated April 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

Report on Compliance and on Internal Control
In Accordance with Government Auditing Standards
Albion Housing Commission
Page Two

Internal Control Over Financial Reporting - Continued

that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated April 7, 2005.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Sandlett, CPA, P2

April 7, 2005

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Albion Housing Commission
Albion, Michigan

Compliance

We have audited the compliance of the Albion Housing Commission, Michigan (Housing Commission) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. Our responsibility is to express an opinion on the Housing Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Housing Commission's compliance with those requirements. In our opinion, Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Report on Compliance and Internal Control
Over Compliance in Accordance With
OMB Circular A-133
Albion Housing Commission
Page Two

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We have noted other matters involving the internal control over financial reporting that we have reported to management of the Housing Commission in a separate letter dated April 7, 2005.

This report is intended solely for the information and use of the audit committee, Board of Housing Commissioners, management, others within the organization, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sam E. Sandell, CPA

April 7, 2005

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONS COSTS
 September 30, 2004
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that in not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$397,531	Yes	O	N/A	N/A
14.872	Capital Fund Program	<u>132,821</u>	No	O	N/A	N/A
	Total	<u>\$530,352</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

ALBION HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2004
=====

B. Financial Statement Findings None

C. Federal Award Findings and Questioned Costs None

ALBION HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2004
=====

NONE

ALBION HOUSING COMMISSION
INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2004

ALBION HOUSING COMMISSION
CONTENTS
SEPTEMBER 30, 2004

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4
Adjusting Journal Entries	5

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Albion Housing Commission

We have audited the financial statements of the Albion Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated April 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing our audit of the financial statements, we considered your internal control in order to determine our auditing procedures for purposes of expressing our opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries, but no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments.

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To our knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to our retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, we would welcome the opportunity to discuss them with you.

Bary E. Sandlett, CPA, PC

April 7, 2005

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

To the Board of Commissioners
Albion Housing Commission

We have audited the financial statements of the Albion Housing Commission ("Housing Commission") as of and for the year ended September 30, 2004, and have issued our report, thereon, dated April 7, 2005. We have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to our attention during the audit, are reported on the following pages as management advisory comments.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

April 7, 2005

ALBION HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2004
=====

Payments of Compensated Absences at Termination of Employment

The Housing Commission had originally made a payment for compensated absences to a former employee without withholding payroll taxes or employee income tax withholdings. This payment was made for the fiscal year ending September 30, 2005 and was discovered during subsequent events audit testing. The problem was corrected timely and a corrected W-2 and Form 941 was issued.

We recommend that the Housing Commission make payments for compensated absences that includes payroll taxes and employee income tax withholdings withheld.

ALBION HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2004

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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries necessary.